

Department of Safety

**For the Years Ended
June 30, 1998, and June 30, 1997**

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October 25, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Michael C. Greene, Commissioner
Department of Safety
1150 Foster Avenue
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Safety for the years ended June 30, 1998, and June 30, 1997.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Safety's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Safety is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Safety's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
99/079

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Department of Safety

For the Years Ended June 30, 1998, and June 30, 1997

AUDIT SCOPE

We have audited the Department of Safety for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, driver's license records, motor vehicle title and registration, payroll and personnel, contracts, equipment, expenditures, cellular phones, compliance with the Financial Integrity Act, and improper alteration of title records—Special Investigation. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The Department Does Not Post Bad Checks to the Driver's History File Timely and Does Not Have a Policy to Address Customers Writing Numerous Bad Checks to the Department

The Department did not post bad checks to the driver's history file in a timely manner (page 4).

Accidents and Violations Are Not Posted Timely to Drivers' Records**

Posting of accidents and violations takes several weeks, so the department may not promptly identify unsafe drivers (page 6).

Controls Over the Reconciliation of Motor Vehicle Plates and Decals with Revenue Are Inadequate**

The department does not reconcile inventory reports of distributions of vehicle plates and decals with revenue from the county clerk (page 10).

County Clerk Reports Were Not Submitted Timely**

County clerks did not submit reports of applications and original registrations and reports at renewal registrations in accordance with applicable laws (page 11).

Controls Over Payroll Time Sheet Preparation Are Inadequate*

Because time sheets are not adequately reviewed, the department overpaid employees \$17,694.24 (page 13).

The Department Failed to Approve Contracts Before the Beginning of the Contract Period

Fully executed contracts were not obtained before contract services were provided. If contracts are not fully executed before services are provided, the state could be obligated to pay for unauthorized services (page 15).

SPECIAL INVESTIGATION**Internal Controls Over the Use of the Motor Vehicle Title and Registration Division's Computer System Are Inadequate**

The department's Motor Vehicle Title and Registration Division does not have adequate system controls to prevent unauthorized access. A review determined that changes were made to a criminal investigator's vehicle title records under the Sequatchie County Clerk's computer identification number (also called a Resource Access Control Facility [RACF] ID number) and password (page 18).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of Safety
For the Years Ended June 30, 1998, and June 30, 1997

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Department of Safety

For the Years Ended June 30, 1998, and June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Safety. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Department of Safety is to provide effective, customer-friendly services to and protect the citizens and visitors of Tennessee. Of the 20 divisions which support the commissioner and his staff, the following divisions are most in contact with the public:

- Capitol Police are responsible for patrolling and securing state buildings and grounds surrounding the capitol.
- Highway Patrol is responsible for enforcing motor vehicle and driver’s license laws, investigating traffic accidents, and providing motorists with assistance.
- Commercial Vehicle Enforcement is responsible for enforcing commercial vehicle laws on size, weight, and safety requirements.
- Executive Security provides security for the Governor and associated parties.
- Criminal Investigations investigates auto thefts, stolen vehicle parts, and odometer fraud.

- Special Operations consists of the Tactical Squad and the Aviation Unit and is responsible for special assignments such as bomb threats, VIP security, drug searches and seizures, and prisoner escapes.
- Pupil Transportation provides instructions for all school bus drivers and conducts safety inspections on school and other buses.
- Driver's License Issuance administers oral, written, and road tests and issues and renews driver's licenses.
- Motor Vehicle Title and Registration issues vehicle titles and registrations for all vehicles in Tennessee.
- Law Enforcement Training Academy provides basic law enforcement training for all state and local law enforcement officers.

An organization chart of the department is on the following page.

AUDIT SCOPE

We have audited the Department of Safety for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, driver's license records, motor vehicle title and registration, payroll and personnel, contracts, equipment, expenditures, cellular phones, compliance with the Financial Integrity Act, and improper alteration of title records—Special Investigation. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

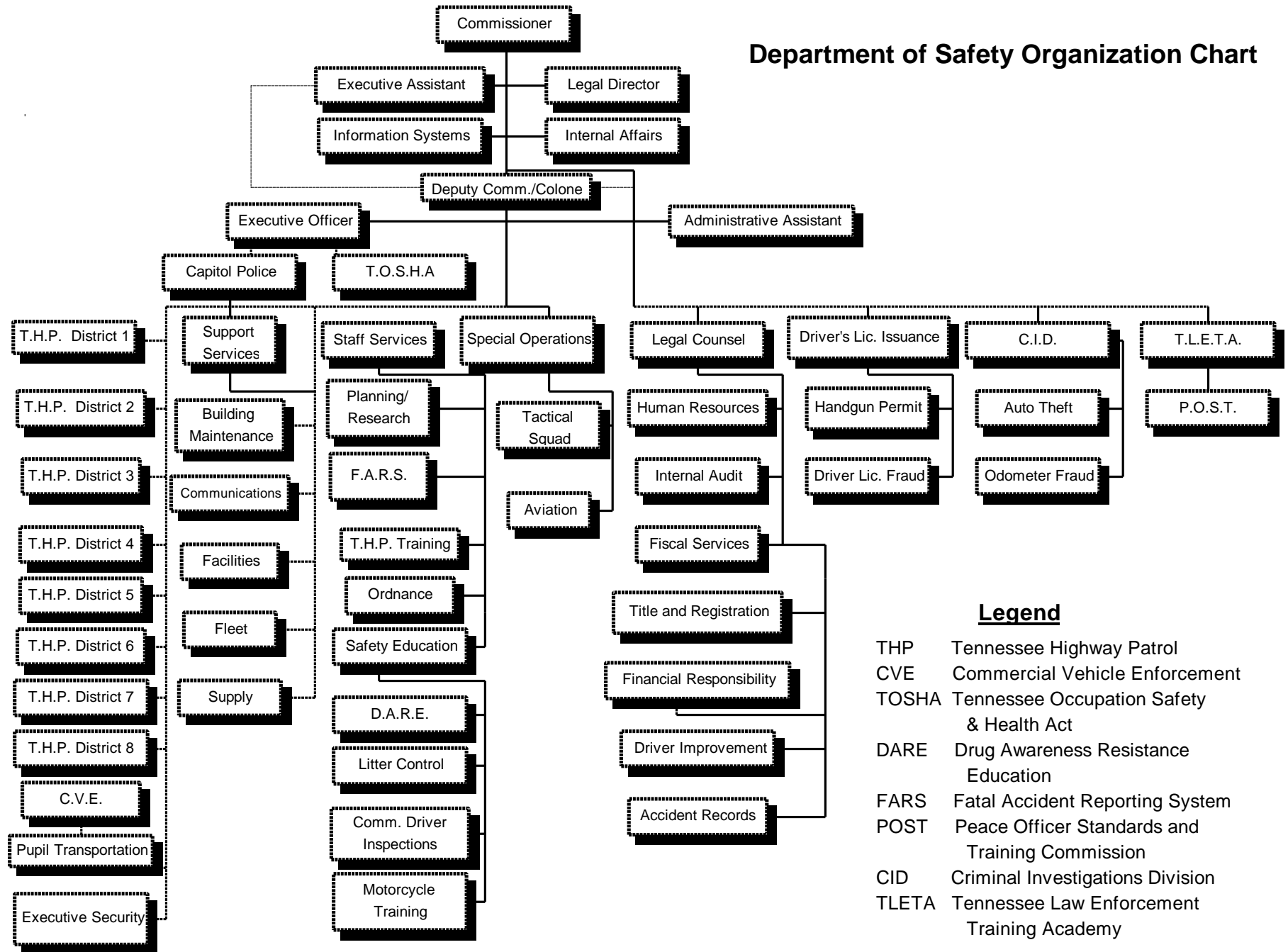
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

Our objectives in the area of revenue were to determine whether

- “Reports of Fines and Fees” were accurate and were submitted timely,
- controls over bad checks and collections were adequate,

Department of Safety Organization Chart



- receipts agreed with amount deposited,
- funds were properly controlled and deposits intact, and
- driver's license stations' revenue procedures were adequate.

Testwork on the "Reports of Fines and Fees" consisted of a sample of county and city clerk courts reports for the audit period. The sample receipt transactions were traced to deposit slips and reviewed for timely deposits. We noted immaterial weaknesses that were reported to management in a separate letter.

Seventeen driver's license testing centers and 16 county clerk offices were visited. Receipting and reconciliation procedures were discussed with key personnel, and a sample of documents was reviewed. Also, cash counts were performed at the driver's license testing stations. The prior audit finding on the reconciliation of cash receipts with driver's license applications was not repeated.

A sample of bad checks received during the audit period was selected and tested for timely and proper notification to the driver's license applicant and timely posting to the applicant's driver history file. The procedures used by the department are not adequate to ensure that bad checks are posted timely to the applicant's driver file (see finding 1).

1. The department does not post bad checks to the driver's history file timely and does not have a policy to address customers writing numerous bad checks to the department

Finding

The department does not post bad checks to the driver's history file in a timely manner and does not have a bad check policy governing numerous bad checks. The Department of Safety is notified of returned checks through a debit memo from the Department of Treasury. When the department receives the debit memo, the cashier's office stamps the debit memo the day it is received from the Department of Treasury. According to the department's procedures for returned checks, the cashier's office should prepare a coding slip (698) to initiate the returned check notification letter within five business days from receipt of the debit memo from the Department of Treasury. After the cashier's office prepares the coding slips, the coding slips are routed through the microfilming department to the data entry office. The data entry office enters the information from the coding slip into the driver's history file.

Testwork revealed that for 32 of 60 bad checks tested (53.34%), the department took 11 to 54 business days from the receipt of the debit memo to post the bad check to the driver's history file. The cause for the delay involved both the cashier's and the data entry offices. Testwork indicated that the cashier's office took one to 49 days to prepare the coding slip after receipt of the debit memo from the Department of Treasury. The data entry office took an

additional 2 to 21 days to post the coding slip to the driver's history file after receiving the memo from the cashier's office.

Furthermore, the Department of Safety does not have a policy for the driver's license cashiers to follow for individuals who have written bad checks in the past. Because there is no policy, there is no mechanism in place to notify cashiers of customers' bad check histories with the department. Departmental personnel stated that there have been many cases in which the same individuals have repeatedly written the department bad checks. Without a policy in place, customers can obtain departmental services even if they have a history of writing bad checks for payment of the services.

Recommendation

The fiscal director should ensure that the cashier's office and the data entry office implement efforts to improve the timely processing of bad checks. Also, the fiscal director should develop a policy to address repeated bad checks so that services are not provided (driver's licenses obtained) without payment in full. Because the department receives large volumes of personal checks, management should make the necessary changes to the system to inform the department's driver's license cashiers when personal checks should not be accepted from individuals.

Management's Comment

We concur with the need to improve the timely processing of bad checks. The cashier's office is now preparing all coding slips to initiate the returned check notification letter within the five-day deadline. The Fiscal Director will work closely with the cashier's office and the data entry office to improve the timely processing of bad checks.

Our policy will be revised to address multiple bad checks. However, we have a policy in canceling services (driver's licenses obtained) when the check is returned. We collect approximately 88% of our bad checks. Since many of our checks are processed through a high-speed remittance processing system in the cashier's office, it would not be feasible to greatly slow down this process to see if prior bad checks have been submitted to the department. Currently, our computer system prevents the issuance of a driver's license if an individual has an outstanding bad check. Due to the need to serve our customers as quickly as possible at the driver license stations, we feel that additional restrictions of reviewing driver history records for each customer paying by check would not be cost effective.

DRIVER'S LICENSE RECORDS

Our work in this area consisted of a follow-up of a prior finding by selecting a nonstatistical sample of accidents and violations which occurred during the audit period. This finding on untimely posting of violations is repeated again in this audit report (see finding 2).

2. Accidents and violations are not posted timely to drivers' records

Finding

As noted in the prior audits, the department has not posted accidents to drivers' records in a timely manner. Management concurred with the prior finding, indicating that when the department is able to reach full staff, the department will be able to reduce the time needed to enter the accidents and/or violations onto the driving records. Also, management indicated that development of scannable accident reports would enable the department to process reports more efficiently. Management stated that they would consider revising the Driver Improvement Program points system and how points are assigned. However, these changes had not been implemented as of June 30, 1998.

Posting took, on average, 10 weeks (72.7 days) in fiscal year 1997, and 12 weeks (88.7 days) in fiscal year 1998, from the date of the accident to the date the department posted the accident to the driver's record. Sample testwork revealed that accident posting from the date of the accident took from 57 days to 109 days in fiscal year 1998, and from 50 to 114 days in 1997, as compared to the 20 days to 119 days in fiscal year 1996, and from 26 days to 218 days in 1995. As a result of this delay and the department's policy of waiting until the accident is recorded before assessing points for driving violations, the department may not be promptly identifying unsafe drivers and taking actions, when necessary, to suspend or revoke driving privileges.

Untimely Posting of Accident Records

Accident Record Submittal. A review of a random sample of 25 accident records submitted to the department in fiscal years 1997 and 1998 revealed that law enforcement authorities generally took an excessive amount of time to submit records. In fiscal year 1997, on average the department did not receive the sampled accident reports from law enforcement authorities until 26.6 days after the accident. The number of days from the accident to receipt of report ranged from 2 days to 81 days. The average delay increased to approximately 29.3 days in fiscal year 1998, ranging from 6 to 83 days.

The department does not monitor the submission of more than 200,000 accident reports that local authorities submit annually. Thus, the department does not identify the law enforcement authorities that do not submit reports or attempt to notify those entities to encourage timely submission. Section 55-10-108, *Tennessee Code Annotated*, requires law enforcement officers to

submit accident reports to the department within seven calendar days of completing the investigation and monitor the submission of accident reports to ensure that law enforcement agencies are submitting reports timely. Furthermore, the department should notify any law enforcement agency which fails to consistently submit reports. However, the statute contains no provisions for enforcement or incentives for timely submission of the reports.

Accident Posting. The problem of timely posting of traffic accidents has been a continuing one for the department and was noted in prior performance and financial audits. In a prior performance audit of the department released in April 1990, auditors found a backlog of 144,000 reports in April 1989. The ensuing delay in posting the accident to drivers' records was 6 to 12 months. In response to the audit, the department set a goal of decreasing the turnaround time in posting accidents to within 30 days of receiving the reports.

In 1995 and 1996, the department had reduced the time it took to post accidents after the reports had been received to an average of 61 days in 1995 and 28 days in 1996. However, the time between the accident and the posting date was still excessive. In response to the 1995-96 performance and the financial and compliance audits, department officials stated that they were in the process of introducing scannable accident reports that would enable the department to process the reports more efficiently. Beginning in November 1998, the department began receiving scannable reports from the Tennessee Highway Patrol. However, the department is still not receiving scannable reports from all law enforcement agencies.

In addition, since the last audit the problem of posting reports once they are received has increased. In fiscal year 1997, it took approximately 46 days from the date the department received the accident report to the posting date. The number of days from receipt to posting ranged from 33 to 63 days. This average increased in fiscal year 1998 to approximately 59 days—with a range of 21 to 91 days.

Delays in Assessing Violation/Accident Points

Points are assessed to a driver's record based on the date the department processed the accident report or court conviction, rather than on the date of the accident or violation. Since the department sometimes takes more than three months to process some accidents, this policy could allow drivers whose licenses should be suspended to continue driving.

Section 55-50-505, *Tennessee Code Annotated*, requires the department to conduct a Driver Improvement Program, the purpose of which is to take appropriate action, including license suspension, against drivers who frequently contribute to accidents or are convicted of traffic violations. The department updates driving records based on the accident reports that law enforcement authorities submit. The department assesses points, based on the severity of the offense, to identify drivers whose records reflect a continuous disrespect for traffic laws and the safety of other drivers. For example, contributing to an accident involving property damage results in a three-point assessment, and contributing to an accident resulting in another's death results in an eight-point assessment.

When a driver has accumulated 12 or more points in a 12-month period, or has been deemed accident prone (three or more avoidable accidents within one year), the driver's license is suspended, subject to appeal. Points remain on drivers' records for 12 months after they are posted.

Department policy 1340-1-4-.04(6) requires that points be assessed to an individual's driving record for cumulative purposes, based on the date the accident report or traffic violation conviction is processed, rather than on the date of the accident or conviction. Because of this policy and delays in processing accident reports, unsafe drivers could avoid having their licenses suspended. For example, a driver who had eight points on his record in January could have an accident in December of the same year resulting in the assessment of four points. If these points were not processed until February of the next year, the driver could avoid suspension because the points placed on his record in January would have been removed.

Timely posting of accidents and violation convictions is essential to the success of the Driver Improvement Program's point system. Lack of timely posting increases the likelihood that problem drivers will continue to drive, despite accumulating sufficient points to warrant suspension of driving privileges. Late posting ultimately may affect the department's ability to fulfill its primary mission, to provide safer highways for citizens of Tennessee.

Recommendation

The department should continue efforts to improve the timely processing of accident reports, including establishing and enforcing deadlines for processing reports and posting points to drivers' records. The department should attempt to process accident reports within one month of the accidents.

The department should change its policy for its Driver Improvement Program and assess points based on the date of the accident and/or offense, rather than on the date the accident or offense was posted to the driver's record.

Management's Comment

We concur. We have been able to eliminate the temporary backlog of reports to be processed. A review of the records for the past 3 months indicates that the average time to post the accident on the driver's record is currently 27 days from the date the accident report is received by the Accident Records Unit. This appears to be the normal time required to fully process the reports.

We implemented the scannable accident reports for use by the Tennessee Highway Patrol in November 1998. This has improved our processing of these reports. We have encountered some system problems in posting these reports to the drivers' records. These problems should be

resolved by November 1, 1999. It is our understanding that the other law enforcement agencies in the state will be using the scannable reporting forms in the near future. This should allow us to further reduce the processing time required.

We have developed a process to identify the law enforcement agencies that may not be reporting accidents to this department. We are developing a process to monitor the time delay between the accident date and the date the accident is reported to this department. When these processes have been completed, we can then contact the agencies that are not reporting appropriately.

In August 1999, we implemented a revised manner of calculating points under the Driver Improvement Program. When a violation is posted to a driver's record, we now scan the record for a 24-month period from the current date. We determine if the driver accumulated 12 points during any 12 months of that 24-month period. If so, the person is subject to the provisions of the Driver Improvement Program. This procedure allows us to consider points assessed for violations and accidents that were not considered under the previous program.

MOTOR VEHICLE TITLE AND REGISTRATION

The objectives of the motor vehicle title and registration testwork were to follow up prior audit findings by determining whether

- license plate inventory procedures were adequate,
- controls over title and registration revenue were adequate,
- counties were submitting proper and timely reports,
- refunds were timely and properly approved, and
- revenue allocation information for license plate sales was properly reported to the Department of Revenue.

The auditors did not perform testwork on license plate inventories because no changes had been made to the system. This prior audit finding is repeated (see finding 3).

We interviewed key title and registration personnel to gain an understanding of controls over revenue. We had no findings related to controls over revenue; however, immaterial weaknesses in internal controls were reported to management in a separate letter.

A sample of 25 counties was selected for registration and title testwork. Remittance reports of title fees were tested for timely submission, adequate documentation, and reconciliation of daily invoices with revenue collected. Renewal registration transmittal reports were tested for

timely submission and adequate documentation. This testwork indicated a need to repeat the audit finding (see finding 4).

A sample of 60 title and registration fee refunds was tested for prompt processing. This testwork indicated that refunds are being processed promptly; therefore, this finding is not repeated.

The procedures for reporting to the Department of Revenue information on the sales of various classes of license plates were discussed with title and registration personnel. Since procedures have improved considerably, this prior finding was not repeated.

Furthermore, a Special Report of improper activities by title and registration staff was issued. See the Special Investigation section of this report.

3. Controls over the reconciliation of motor vehicle plates and decals with revenue are inadequate

Finding

As noted in the previous four audits, the Motor Vehicle Title and Registration Division (MVD) does not reconcile inventory reports of distributions of vehicle plates and decals with the revenue received from the county clerks for sale of these items. Management concurred with the prior finding, stating that management realizes the importance of a system for accountability over plates and decals issued. Additionally, management indicated that the department would attempt to perform a manual reconciliation of plates and decals to revenue received. However, based on the field work of this audit, no manual reconciliations were performed and the computer system is still not capable of performing an inventory reconciliation.

If the MVD does not periodically reconcile remittances from county clerks with reductions in each county's reported inventory, the department cannot be assured it has received all the revenue it is due. Furthermore, the failure to reconcile these reports increases the risk that funds may be misused.

Recommendation

The Director of the Motor Vehicle Title and Registration Division should make the necessary changes to the computer system to accurately account for the inventories of plates and decals distributed to each county and the related revenue from the sale of these items. Also, remittance from the county clerks should be periodically reconciled with each county's inventory.

Management's Comment

We concur. One of the most important features of our new motor vehicle computer system will include an inventory of license plates and decals that can be reconciled. Until that time a manual reconciliation is practically impossible. However, the Internal Audit Division did physically inventory license plates and decals in several counties in this past year. Also, the Internal Audit division will reconcile remittances from the county clerks with county inventories as time permits. Further, the Motor Vehicle Title and Registration division has diligently sought and acquired quarterly inventory reports from all ninety-five county clerks and will continue this practice until a central computer system maintains and reconciles license plates and decals.

4. County clerk reports were not submitted timely

Finding

As noted in the previous three audits, the county clerks did not submit reports of applications and original registrations and reports of renewal registrations to the Motor Vehicle Title and Registration Division (MVD) in accordance with applicable laws. Management concurred with the prior finding and stated that top management would continue to monitor reports to ensure timeliness of the reports. Management also stated that letters regarding delinquent reports would be mailed to the county clerks and that the commissioner would consider imposing a penalty for later reports. However, reports are still late and the department has not consistently notified county clerks of delinquent reports.

The law relative to when reports must be submitted differs for counties depending on whether they contract with the state to issue titles. Section 55-6-105(a)(5), *Tennessee Code Annotated*, requires noncontract county clerks to submit the reports within five days after the applications are filed. However, contract county clerks are allowed an additional five days. Of the 95 counties in the state, 39 were noncontract counties as of June 30, 1998.

Applications for title reports and original registration reports for 25 counties were tested to determine if the county clerks had submitted reports on time. Twelve of the counties tested were under contract with the state to issue titles; 13 were not. Two of 12 (16.6%) contract counties tested and 10 of 13 (77%) noncontract counties tested had not submitted completed reports on time. The reports ranged from 3 to 23 days late.

Reports of renewal applications for the same 25 counties were tested to determine if the county clerks had submitted reports on time. Section 55-6-105(a)(7), *Tennessee Code Annotated* requires each county clerk to "remit and report, not later than the tenth day of each month, to the department all moneys collected" for renewal registrations. Seven of 25 counties (28%) submitted the renewal report late (after the 10th of the following month) for fiscal year ending June 30, 1998. For fiscal year ending June 30, 1997, 12 of 25 counties (48%) submitted the report late. The number of days the reports were late ranged from 1 to 8 days. The department

may penalize the county clerks as described in Section 55-6-105(b), *Tennessee Code Annotated*. However, there were not any of the county clerk reports submitted to the department late enough to warrant a penalty (10 days late).

Recommendation

The Director of the Motor Vehicle Title and Registration Division should continue to monitor reports to ensure that they are filed timely and that letters to county clerks regarding delinquent reports are promptly prepared and mailed. The commissioner should consider imposing a penalty for reports submitted over 10 days late.

Management's Comment

We concur. The Title and Registration Division continues to monitor the submission of reports to the division. A memorandum was directed to all ninety-five county clerks on April 7, 1998, apprising them of the previous audit finding, and soliciting their help in submitting timely reports to the division. The Commissioner will consider imposing a penalty for reports submitted over 10 days late.

PAYROLL AND PERSONNEL

Our objectives in the area of payroll and personnel were to

- follow up on prior audit findings concerning General Order 205 and controls over the preparation of and review of payroll time sheets,
- obtain explanation for the large number of employee overpayments reported to the Comptroller's Office, and
- determine whether employees received performance evaluations timely.

To follow up on the prior year finding concerning policies and procedures for employee overtime, we interviewed department personnel and reviewed the revised policy related to General Order 205. This finding has not been repeated.

We interviewed the department's key human resource personnel to gain an understanding of the procedures for preparing and auditing time sheets before they are entered into the payroll system, as well as procedures for collecting overpayments from the department's current and former employees. This prior audit finding is repeated (finding 5).

A sample of 25 employees was tested to determine if management had prepared timely performance evaluations. This testwork indicated that performance evaluations were not being performed timely. This weakness is reported to management in a separate letter.

5. Controls over payroll time sheet preparation are inadequate

Finding

As stated in the prior audit, The Department of Safety does not have adequate controls over the preparation and review of payroll time sheets. Management concurred with the prior finding and stated that the time-keeping staff of the Personnel Division would begin auditing time and attendance forms before they are submitted for payroll processing. Also, management indicated that when a mistake in timekeeping or delays in the notification of personnel changes occur, the Personnel Director will notify the appropriate level supervisor by letter, stating the problem or error and the steps to prevent the mistake. Although the department does audit time and attendance forms before they are being submitted for payroll processing, and does notify the supervisors of mistakes or delays in timekeeping, problems still exist.

Testwork revealed that the department made 121 overpayments, totaling \$17,694.24, to employees through June 1998, according to reports submitted to the Office of the Comptroller of the Treasury. Fourteen of these overpayments, totaling \$3,139.46, were made to separating employees; of this amount, none has been collected. The remaining overpayments have been deducted from active employees' subsequent payroll checks.

The following contributed to the overpayment problem:

- Fifty-eight of the 121 overpayments (47.9%) were due to keying errors and 9 (7.4%) were due to misclassification of overtime because personnel keying items into the system are not properly trained and/or were not adequately performing their duties.
- Several field location supervisors are not promptly communicating personnel changes to the department's human resources division. Prompt notification of employee separation would prevent the department from overpaying separated employees. Fourteen of the 121 overpayments (11.6%) were received by separated employees in error.
- One employee overpayment was reported but did not include an explanation for the error. Also, one overpayment was a result of a fraudulent time sheet submitted by the employee. The fraudulent time sheet was detected by Department of Safety personnel.

- A data capture system was implemented in May 1997 to minimize overpayment problems. The data capture system is the department's time and attendance records system. Testwork revealed 38 of the 121 overpayments (31.4%) were a result of the data capture system. The error occurred because the data capture system was not set up to handle certain situations dealing with accrual of overtime. The data capture system program error was corrected.

Good internal controls require that attendance records be correctly prepared, entered, and reviewed by supervisors. Even when data are processed electronically, it is the responsibility of staff submitting data to review the output for accuracy.

Recommendation

The fiscal director and timekeeping section should ensure that adequate controls are in place for time sheet preparation. To prevent overpayments to employees, the fiscal director should ensure that field supervisors promptly communicate personnel changes to the department's Human Resource Division. Also, the fiscal director should ensure that the payroll register is regularly compared to the personnel transaction listings and that an agreement is made with former employees concerning repayments. The Fiscal Director should also ensure that overpayments are monitored and that appropriate follow-up is made for those overpayments. Finally, the fiscal director should ensure that staff review computer output for accuracy when data has been electronically processed.

Management's Comment

We concur. The Fiscal Director will send correspondence explaining the importance of field supervisors promptly notifying the timekeeping section of all personnel changes. Any supervisor submitting personnel changes late will receive a letter saying that this information was late. A copy will be sent to the supervisor's director or section head. The Fiscal Services section will work more closely with the Human Resources section to identify new employees to the department. If an employee transfers from another department, the timekeepers will verify their leave balance with that department. This will prevent employees from trying to use leave they do not have. The payroll register will be compared regularly to ensure that all personnel transactions were accurately entered. All overpayments will be placed on a log and all payments and correspondence recorded on that log. This will give a clear picture of the accounts receivables outstanding on any given day.

CONTRACTS

The objective of our review of contract controls and procedures was to determine whether the department approved the contract before the scheduled start of services.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over contracts. We reviewed a sample of approved of contracts for the audit period and determined that contracts were not approved before the contract period began, as discussed in finding 6.

6. The department failed to approve contracts before the beginning of the contract period

Finding

The department allowed contract services to be performed before proper approvals of the contracts were obtained. Of the 60 contracts reviewed, 37 (61%) were not properly approved before the beginning of the contract period. The proper approvals for these contracts were obtained from 6 to 230 days after the beginning of the contract period. Chapter 0620-3-3-.04(d)(8) of the Rules of the Department of Finance and Administration states that "upon approval by the Commissioner of Finance and Administration, [the contract] shall be an effective and binding contract." If contracts are not approved before the contract period begins and before services are rendered, the state could be obligated to pay for unallowable services.

Recommendation

The department's fiscal director should ensure the contract process is initiated far enough in advance to allow the contract to go through the proper channels of approval. Contracts should be approved by proper personnel before the beginning of the contract period. Also, supervisory staff should perform regular monitoring to ensure compliance with the contract process.

Management's Comment

We concur. The Fiscal Director will notify all sections that contracts should be initiated well in advance of the starting date of the contract. This will allow time for the contract to be approved by the authorized individuals before any services are rendered. The contract files will be reviewed to ensure that all sections are complying with this recommendation.

EQUIPMENT

Our work in the area of equipment consisted of ensuring that a sample of equipment reported at the Driver's License Testing Stations and the County Clerks' Offices was accounted for. We interviewed the department's key supply personnel to gain an understanding of the procedures for adding and deleting equipment from the department's equipment listing, as well as changing equipment location. A sample of items was selected from the department's equipment

listing and the description, tag number, and location were physically verified. We had no findings related to equipment.

EXPENDITURES-ANALYTICAL PROCEDURES

Our objectives in the area of expenditures were to determine whether

- unusual or high-dollar travel payments needed further investigation,
- unusual or high-dollar vendor payments needed further investigation, and
- expenditures were reported in unusual object codes.

We reviewed a sample of STARS expenditure reports. Our analytical procedures testwork included a review of supporting documentation for unusual items to determine whether the expenditures were proper and were classified properly into STARS. We had no findings related to expenditures.

CELLULAR PHONES

The objectives of our review of cellular phones were to

- ensure that personnel were authorized to use cellular phones,
- ensure that cellular phone usage was monitored by the department, and
- determine whether the department had written procedures governing cellular phone use and related monitoring.

We interviewed key department personnel to gain an understanding of the department's procedures and controls concerning cellular phones. Also, we reviewed supporting documentation for cellular phone calls made during the audit period. We had no findings related to cellular phones; however, a weakness in internal control concerning reconciliation of phone logs to phone bills was reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to evaluate annually its systems of internal accounting and administrative control and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by

December 31 of each year, through December 31, 1997. In 1998, the law was amended and now requires that the head of each executive agency, beginning in June 1999, and each year thereafter, submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the commissioner of Finance and Administration and the Comptroller of the Treasury. Every fourth year, beginning with December 31, 1999, the head of each executive agency must transmit a report on internal control.

The objectives of our review of the Department of Safety's compliance with the Financial Integrity Act were to determine whether

- the department's reports were filed in compliance with the Financial Integrity Act,
- documentation to support the department's evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions have been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act reports were submitted on time, support for the reports was adequate, and the letter acknowledging the department's responsibility for the internal control system at June 30, 1999, was submitted timely.

SPECIAL INVESTIGATION

IMPROPER ALTERATION OF TITLE RECORDS

On March 4, 1998, the Director of the Title and Registration Division, Department of Safety, notified the Division of State Audit of allegations that the Sequatchie County Clerk had improperly changed the vehicle title records of a Department of Safety criminal investigator assigned to District 2, which encompasses Sequatchie and Hamilton counties.

Division of Title and Registration officials determined that in February 1998, someone improperly entered a "stolen vehicle" stop code (transaction type 15), an "administrative" stop code (type 16), and "666DVL" (type 26) as the former license plate number to the criminal investigator's personal vehicle title record. They also determined that in March 1998, someone

changed the owner name for a state-owned undercover vehicle assigned to the criminal investigator from “Ronald Baker” to “Arnold Baker,” and later to “Benedict Arnold.”

According to the Director of the Title and Registration Division, use of these transaction types (15, 16, and 26) by county clerks’ office staff was not specifically prohibited, nor was computer access to the transaction types blocked. However, the director stated that county clerks were not instructed on how to use these transaction codes and that she, therefore, presumed they did not know how to make such transactions and would not use the transaction codes.

The objectives of our review were to determine the nature and extent of any impropriety relating to the alteration of vehicle title records, to determine if any other inappropriate transactions relating to title information had occurred, and to examine the department’s internal controls over access to the title and registration computer system. The review included an examination of relevant transaction data and interviews with relevant staff of the Department of Safety and the Sequatchie County Clerk’s office. This office issued a special report on February 19, 1999, regarding the alteration of vehicle title records. The audit finding related to that review follows.

7. Internal controls over the use of the Motor Vehicle Title and Registration Division’s computer system are inadequate

Finding

The department’s Motor Vehicle Title and Registration Division does not have adequate system controls to prevent unauthorized access. A review determined that changes were made to a criminal investigator’s vehicle title records under the Sequatchie County Clerk’s computer identification number (also called a Resource Access Control Facility [RACF] ID number) and password.

Although the Sequatchie County Clerk’s RACF ID and password were used, these transactions cannot be tied conclusively to her because someone else could have acquired her RACF ID and password and entered the information. During the April 1, 1998, interview with the county clerk, she directly denied making any changes to the title records in question. The county clerk also stated that she did not know who made the improper changes and that she did not suspect anyone of making them.

An April 15, 1998, letter, written on behalf of the county clerk by her attorney, stated that the county clerk office’s five full-time staff and an intern who worked in the office for approximately two months knew the county clerk’s RACF ID and password. The letter also identified an employee with the county tax assessor’s office who allegedly knew the county clerk’s RACF ID but not her password. Finally, the letter identified personnel from Business Information Systems (the private company responsible for networking the county clerk computer

system with the state computer system) who might have known the county clerk's RACF ID and password.

It should be noted that a State of Tennessee Security Agreement signed by the county clerk on January 14, 1992, states that in receiving a computer user ID for use in accessing the State of Tennessee network, the county clerk agreed to not knowingly permit any other persons to use her ID. The agreement also requires that the password associated with the assigned ID be maintained in the "strictest of confidence." The county clerk's liberal transmission of her password to her staff violated her security agreement with the state.

During interviews, the five full-time staff of the Sequatchie County Clerk's Office all acknowledged that they knew the county clerk's RACF ID and password at the time the improper changes were made to the criminal investigator's title records. They stated that, besides office personnel, they did not know who else may have known the county clerk's password. However, all five staff denied making changes to the title records, knowing who made the changes, or having a reason to make the transactions. They further denied even knowing how to make type 15, 16, or 26 transactions and told us that they had never made such transactions. The intern, the county tax assessor's employee, and the Business Information Systems representative who was responsible for networking the Sequatchie County Clerk's office computer system with the state computer system all denied knowing the county clerk's password or making any changes to title records.

The criminal investigator stated that Sequatchie County was part of his assigned work area and that he and the county clerk developed a good working relationship and became close friends. However, he stated that sometime in late 1997, their personal relationship became strained. According to the criminal investigator, around the end of January 1998, the county clerk threatened to ruin him personally, professionally, and politically.

Based on presently available information, the only person with the ability, access, and incentive to improperly change the criminal investigator's title records was the Sequatchie County Clerk.

A review of all transactions made under the Sequatchie County Clerk's RACF ID and password from December 4, 1997, through March 16, 1998, and from April 29, 1997, through July 23, 1997, disclosed that (besides changes made to the two vehicles operated by the criminal investigator) one type 15 transaction, one type 16 transaction, and 259 type 26 transactions were made. Testwork also determined that 167 type 15 transactions, 1,201 type 16 transactions, and 62,334 type 26 transactions were made by 29 other county clerks' offices throughout the state during this period.

Someone was able to improperly change the criminal investigator's title records, and county clerk office staff throughout the state were able to make type 15, 16, and 26 transactions, in part, because the Motor Vehicle Title and Registration Division did not appropriately restrict

county-level personnel from using these transaction codes (by blocking computer access) and failed to properly monitor the county clerks' offices' use of these functions.

In a July 17, 1998, memorandum to county clerks, the Director of the Title and Registration Division stated that use of type 15, 16, and 26 transactions was prohibited under any circumstances. She further stated in the memorandum that reports were being generated to reflect transaction types by RACF ID and that the identification of any unauthorized use of these transactions would result in a reduction of security level to inquiry only.

Also, the Motor Vehicle Title and Registration Division is in the process of updating its computer system screen accessibility and edit functions. According to the Motor Vehicle Title and Registration Division Systems Manager, the computer system update would prevent county-level personnel from performing type 15, 16, and 26 transactions, thereby restricting their use to division staff in Nashville.

Subsequent Action Taken by Motor Vehicle Title and Registration Division Management

According to a March 11, 1999, letter from the Director of the Motor Vehicle Title and Registration Division, the Sequatchie County Clerk was notified that the fiscal-year 1998-1999 contract to issue titles in Sequatchie County would be terminated effective March 15, 1999. This action reduced the Sequatchie County Clerk's access to the Title and Registration computer system to inquiry only.

Recommendation

The Director of the Motor Vehicle Title and Registration Division should immediately implement computer controls to prevent county-level personnel from accessing restricted transaction code functions.

The Director of the Motor Vehicle Title and Registration Division should continue to implement established procedures for monitoring county-level use of type 15, 16, and 26 transaction codes. This review should be documented and maintained. Individuals identified as improperly using restricted transactions should have their access to the state computer network reduced to inquiry only.

Management's Comment

We concur. On August 4, 1999, the following changes were made to the existing computer system:

- 1) Elimination of the maintenance transaction (code 26) except for supervisory staff in the division.

- 2) Transaction codes 15 and 16 have been blocked to the counties.

The review of restricted transactions types will be documented and maintained. Also, individuals identified as improperly using restricted transactions will have their access to the state computer network reduced to inquiry only.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Safety filed its report with the Department of Audit on August 18, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Safety has corrected previous audit findings concerning reconciliations of cash receipts with driver's license applications, compliance with payroll and personnel policies for overtime, Title and Registration refunds not processed timely, and management's monitoring license plate data and related revenue appointments.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate controls over time sheets, late posting of accidents and violations to drivers' records, improper submission of county clerks' reports, and inadequate controls over reconciliation of motor vehicle plates and decals with revenue. These findings have not been resolved and are repeated in the applicable sections of this report.

OBSERVATIONS AND COMMENTS

UNAUTHORIZED FUND IN UNICOI COUNTY - SPECIAL INVESTIGATION

In July 1999, this office received information pertaining to an unauthorized fund established in Unicoi County, Tennessee. The fund was allegedly established for the purchase of cameras for the vehicles of state troopers. This matter is currently under review by the Division of State Audit. The review will focus on the sources and use of the funds. Any findings as a result of this review, including any weaknesses in internal controls, will be reported in a special report or the subsequent audit report for the department.

SECONDARY EMPLOYMENT

The Department of Safety has allowed law enforcement officers to supplement their approved state salaries through so-called “secondary employment” arrangements. Secondary employment is achieved two different ways: (1) private secondary employment and (2) contract secondary employment. As of May 21, 1998, there were approximately 553 officers with 942 secondary contracts on file. Of the 942 contracts, 243 were for private secondary employment contracts and 699 were for contract secondary employment. The Department of Safety first documented private secondary employment in its in-house policies and procedures, known as General Orders, in General Order No. 250, dated June 1, 1971. Contract secondary employment was first addressed in General Order No. 250 (revised), dated February 15, 1987. (General Orders are Department of Safety internal documents with no approval from any other state office.)

Private Secondary Employment

Private secondary employment is determined by private arrangements between officers and private employers. These arrangements would be considered traditional “moonlighting.” Law enforcement officers use their state uniforms and weapons during their private secondary employment. Payment is made to the officer directly from the private employer and not from the state. Approval has been required by the Department of Safety for such arrangements. Private “moonlighting” of this nature was curtailed, to some degree, by the Department of Safety General Order 250 (revised), issued July 1, 1995. The order prohibited officers from using the highway patrol uniform or their statutory authority while engaging in private secondary employment but grandfathered in all officers who had existing arrangements for secondary employment, provided those officers renewed their grandfather status each September. As of May 21, 1998, there were 76 officers with a total of 152 grandfathered contracts. There is no effect on state payroll or retirement benefits in these situations.

Contract Secondary Employment

Contract secondary employment is the contracting out of the services of state employees by the department to private vendors. This method of secondary employment is established primarily through arrangements for services between the Department of Safety and highway contractors. Some secondary employment is achieved through arrangements for traffic control for private projects by private entities such as Intermedia Cable and Nextlink. However, a majority of these arrangements came about as a result of contracts between the Department of Transportation and contractors performing construction work on state roadways. Construction contracts are procured through a bid process with the Department of Transportation. In many cases, the Department of Transportation specifically requires the contractor to utilize a Tennessee Highway Patrolman for traffic control. This requirement appears in the Invitation to Bid and in the contract.

The word “arrangement” was used until 1996, because there was no written documentation of the department’s relationship with the vendors. Nothing was submitted to the Department of Finance and Administration or the Department of Personnel for approval, as required by state law. According to Department of Safety personnel, the volume of such arrangements has greatly increased in recent years, and, beginning in 1996, one-year contracts between the department and the contractors for use of uniformed safety officers were prepared by the Department of Safety and submitted to the Department of Finance and Administration for their approval. Safety personnel stated that they did this in order to “formalize” the contracting procedure. The Contract Office in the Department of Finance and Administration was not knowledgeable about the arrangements of paying these officers under these contracts.

Compensation

The contract between the Department of Safety and the private contractor provides that the contractor will compensate the Department of Safety for the services of the officer at an hourly premium overtime rate and pay an additional amount for the officer’s benefits. The law enforcement officer reports the overtime worked on his or her regular semimonthly time sheet and identifies the hours as “secondary employment.” The officer is paid for the services as an increase in his payroll check from the state. The Department of Safety accumulates all time charged to each contractor and bills the contractor the cost of the work performed, which also includes mileage and use of a patrol car.

Retirement

All compensation received by the officers through this secondary employment arrangement is reported to the Tennessee Consolidated Retirement System as earnings for the pay period. Retirement benefits are therefore calculated on all such earnings for retirement purposes. The contracts provided for premium overtime, which amounts to one and one-half times the hourly compensation paid for by the state. The amount being paid by the vendor for benefits does not begin to pay the cost of the additional benefits earned by these employees through their overtime. This is true because of the large percentage increase in their compensation for their five highest

years, which would be higher than what it would have been when calculated by the actuary in the determination of the state contribution rate to the retirement system.

No Approval Obtained Outside the Department of Safety

It appears that at no time were the Department of Personnel, the Department of Finance and Administration, the Department of Treasury, or the Office of the Attorney General and Reporter consulted or advised that such process was being established. No approval was obtained until two years ago. At that time, the Department of Safety submitted contracts to the Department of Finance and Administration's Contract Office setting forth the arrangements, and such contracts have been approved by the Contract Office since that time. Since these contracts were from July 1 to June 30, approval of the Comptroller was not required, and, therefore, such contracts were never submitted to the Comptroller's Office.

Discovery of Contract Secondary Employment Arrangements

This matter came to the attention of the Department of Treasury, Tennessee Consolidated Retirement System, as the result of a retirement request of a department employee which included an increased level of earnings in his last year of service. The officer received approximately \$84,275 in total compensation from the Department of Safety during the 1997 fiscal year. Of this total, \$48,037 came through his primary employment as an officer, and an additional \$36,238 came through his secondary employment through such contracts.

Statutory Provision

It would appear that the General Assembly addressed issues relating to secondary employment though *Tennessee Code Annotated* Section 8-23-201, "Compensation for extra services or overtime – Maintenance for certain officers and employees – Employees performing duties for other agencies."

In summary, in accordance with the advice of the State Attorney General, the Department of Safety no longer contracts with private entities at either highway construction sites or other sites. Effective December 16, 1998, all contractual secondary employment arrangements were terminated. Contracts for state trooper services are now made between the department and the Department of Transportation.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Department of Safety filed its compliance report and implementation plan on December 1, 1998, and, on June 28, 1997.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall,

on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of the Department of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

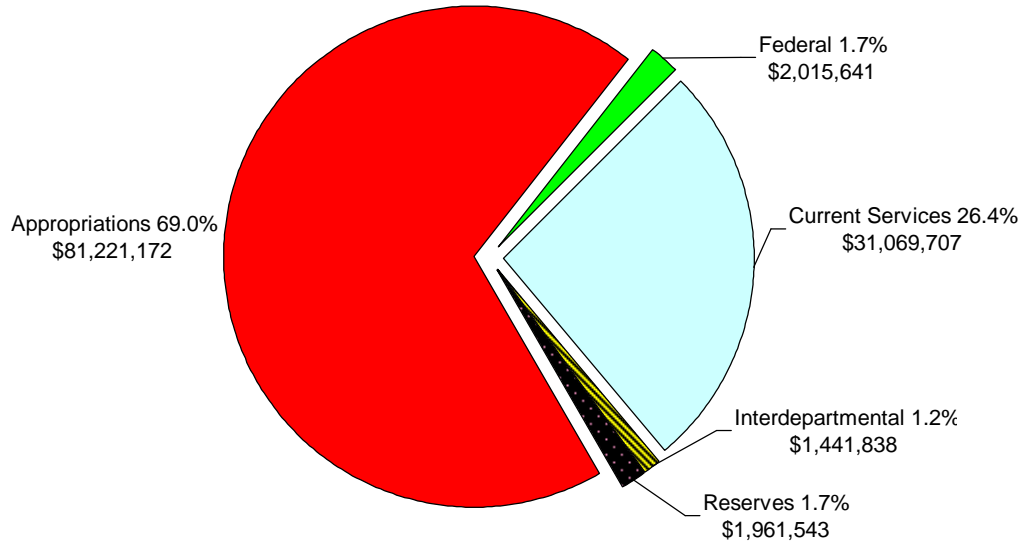
DIVISIONS AND ALLOTMENT CODES

Department of Safety divisions and allotment codes:

| | |
|--------|----------------------------------|
| 349.01 | Administration |
| 349.02 | Driver's License Issuance |
| 349.03 | Highway Patrol |
| 349.04 | Motorcycle Safety Education |
| 349.06 | Auto Theft Investigations |
| 349.07 | Motor Vehicle Operations |
| 349.08 | Driver Education |
| 349.09 | Law Enforcement Training Academy |
| 349.10 | POST Commission |
| 349.11 | Titling and Registration |
| 349.12 | Major Maintenance |
| 349.13 | Technical Services |
| 349.14 | CID Anti-theft |

Department of Safety Funding Sources

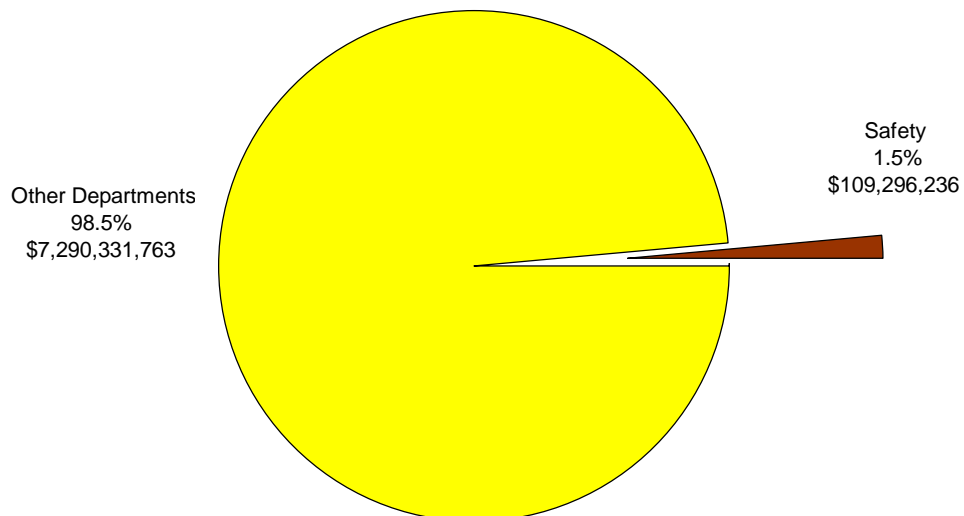
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Safety

General Fund Expenditures

Fiscal Year Ended June 30, 1998 (Unaudited)

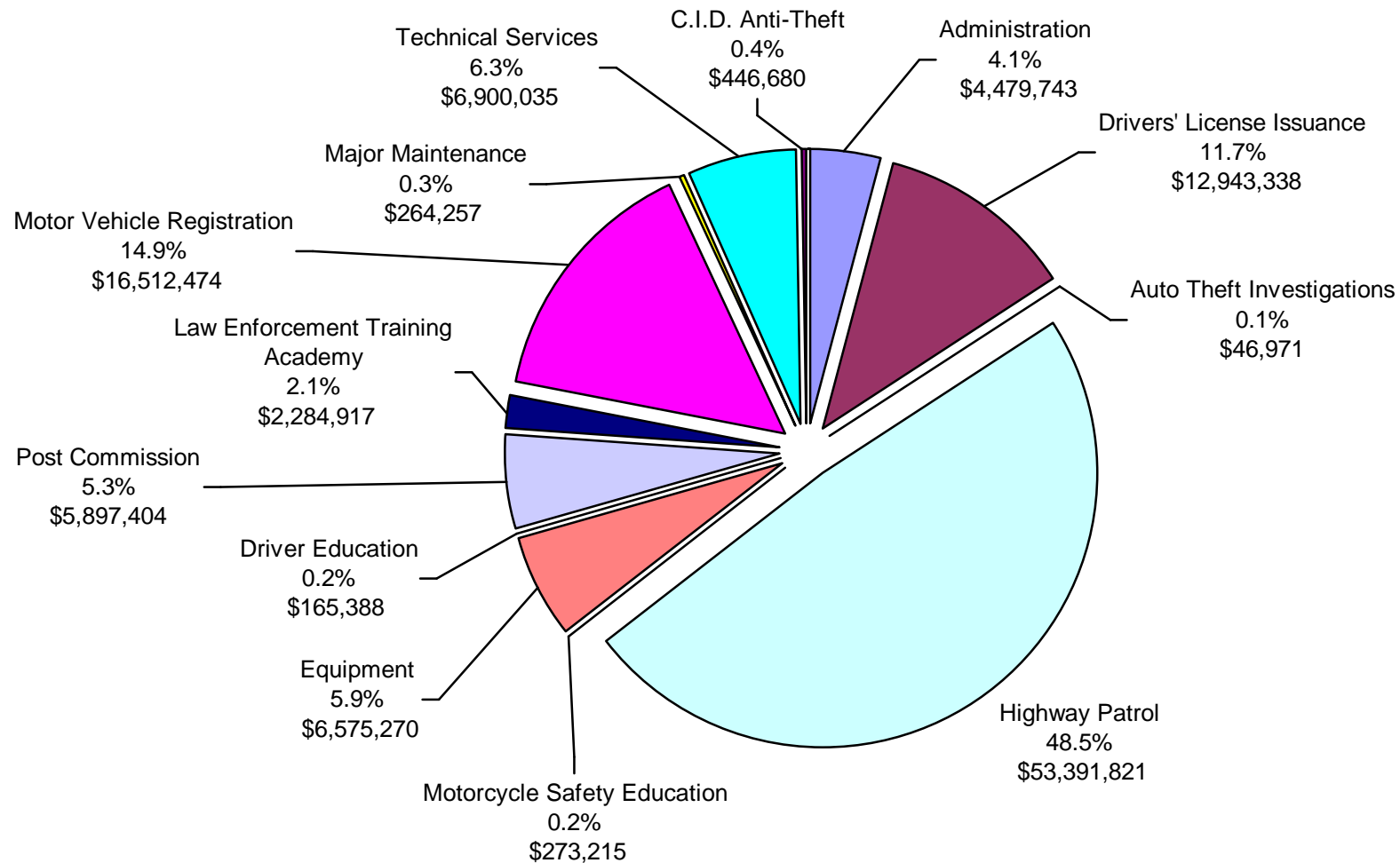


Source: Department of Safety

Note: Does not include expenditures recorded in Special Revenue Fund

Department of Safety Expenditures by Allotment & Division

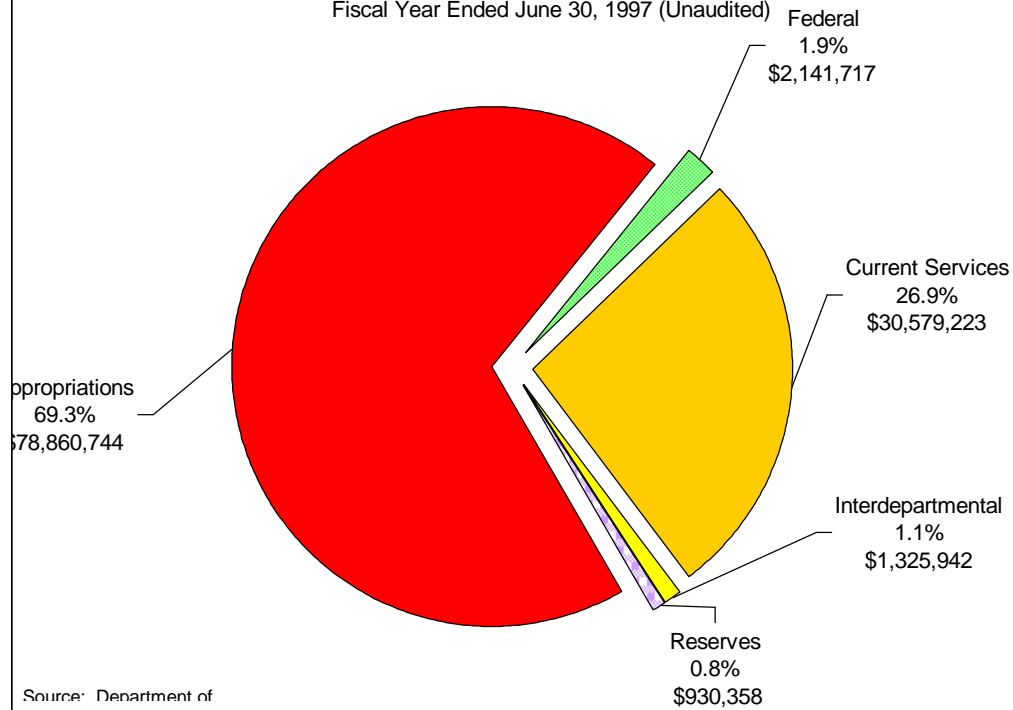
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Safety

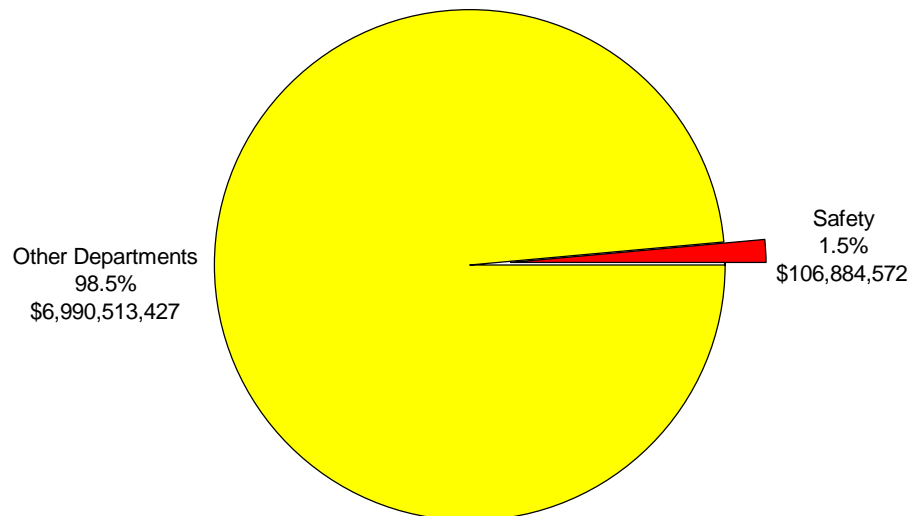
Department of Safety Funding Sources

Fiscal Year Ended June 30, 1997 (Unaudited)



General Fund Expenditures

Fiscal Year Ended June 30, 1997 (Unaudited)

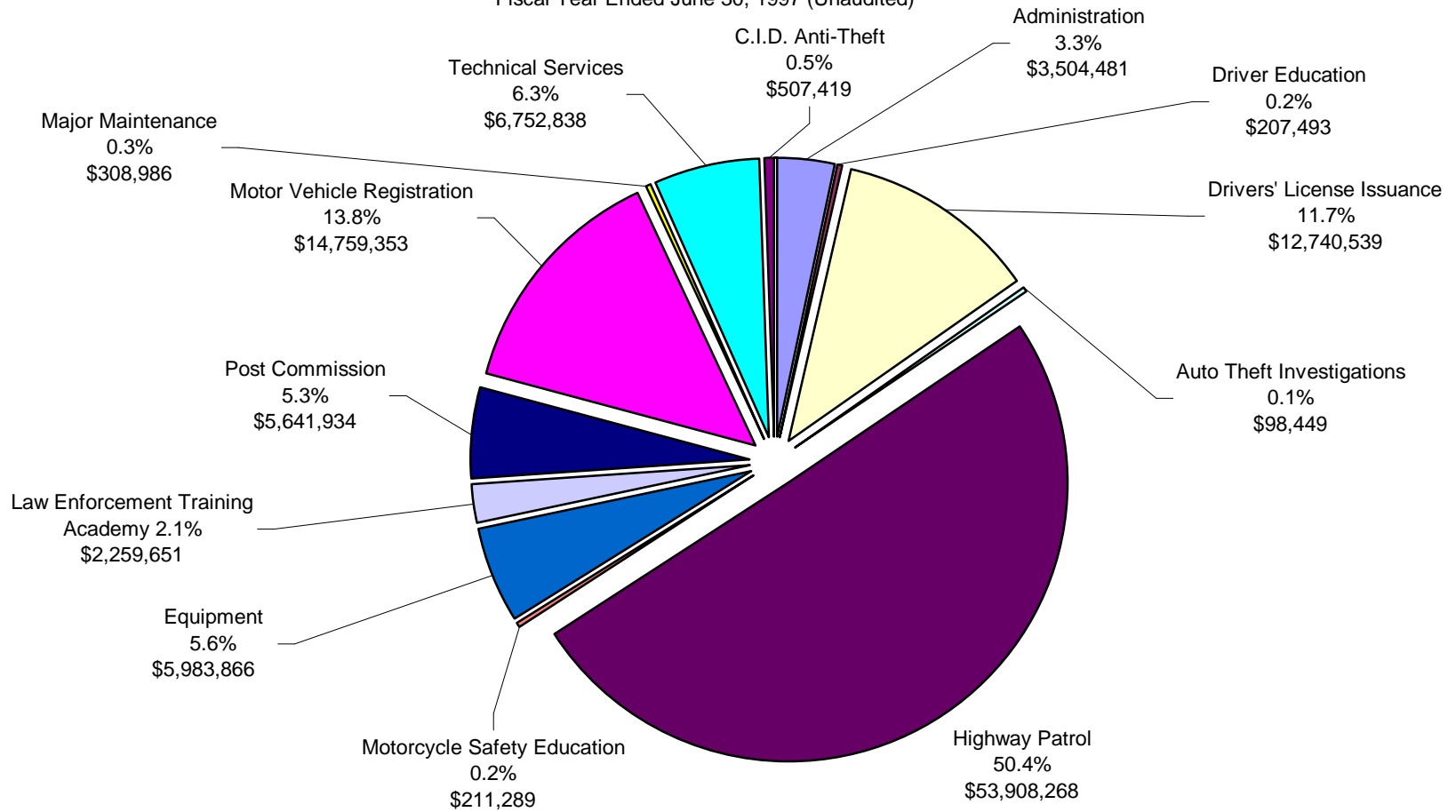


Source: Department of Safety

Note: Does not include Expenditures recorded in Special Revenue Fund

Department of Safety Expenditures by Allotment & Division

Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Safety